

CITY OF CHARITON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2013

CITY OF CHARITON

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CITY OF CHARITON

OFFICIALS

June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger D. Manser.	Mayor.	Dec, 2013
Raymond Meyer..	Council Member..	Dec, 2013
Dennis Bisgard	Council Member..	Dec, 2013
Ruth Smith.	Council Member..	Dec, 2015
Michael W. Graves.	Council Member..	Dec, 2015
Corey Goodenow.	Manager.	Aug, 2013
Ruth Ryun.	Clerk/Treasurer..	Dec, 2013
Verle W. Norris.	Attorney.	Dec, 2013

City of Chariton



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

The financial statements referred to above include only the primary government of the City of Chariton, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the financial statements do not purport to and do not present fairly the respective cash basis financial positions as of June 30, 2013, and the respective changes in cash basis financial position of the City of Chariton, in conformity with the basis of accounting described in Note 1. A separate audit report is issued by the respective component unit.

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Chariton's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the eight years ended June 30, 2011 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those primary government financial statements which were prepared in conformity with on the basis of cash receipts and disbursements.. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 8 through 14 and 38 through 40 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2013 on our consideration of the City of Chariton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Chariton's internal control over financial reporting and compliance.

Martens + Company, CPA, LLP

West Des Moines, Iowa
September 11, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Chariton provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The City's governmental activities' receipts decreased 47%, or approximately \$2,697,000, from fiscal year 2012 (FY12). No new bond proceeds this year accounted for most of this decrease.
- Disbursements of the City's governmental activities increased 13.5%, or approximately \$400,000, from FY12. Public Safety, Public Works and Debt Service disbursements increased approximately \$83,000, \$105,000 and \$209,000, respectively. Culture and Recreation and Community and Economic Development decreased approximately \$142,000 and \$152,000, respectively.
- The City's total cash basis net position at June 30, 2013 remained essentially unchanged with only a decrease of approximately \$750, from June 30, 2012. Of this amount, the assets of the governmental activities decreased approximately \$241,000 and the assets of the business type activities increased by approximately \$240,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Government-wide Financial Statement consists of a cash basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The cash basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, other city taxes and state and federal grants finance most of these activities.
- Business Type Activities include the solid waste, sewer, storm water systems and the airport. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Employee Benefit Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for Governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information which include the solid waste and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$5.38 million to approximately \$5.14 million. The analysis that follows focuses on the changes in cash balances.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 175	\$ 159
Operating grants, contributions and restricted interest	647	576
Capital grants, contributions and restricted interest	23	290
General receipts:		
Property tax	1,768	1,712
Other City taxes	384	407
Grants and contributions not restricted to specific purposes	19	19
Unrestricted interest on investments	6	2
Bond proceeds	-	2,514
Other general receipts	29	69
Total receipts	<u>3,051</u>	<u>5,748</u>
Disbursements:		
Public safety	671	588
Public works	698	593
Health and social services	5	5
Culture and recreation	489	631
Community and economic development	38	190
General government	333	369
Debt service	804	595
Capital projects	294	2
Total disbursements	<u>3,332</u>	<u>2,973</u>
Change in cash basis net position before transfers	(281)	2,775
Transfers, net	<u>40</u>	<u>(108)</u>
Change in cash basis net position	(241)	2,667
Cash basis net position beginning of year	<u>5,384</u>	<u>2,717</u>
Cash basis net position end of year	<u><u>\$5,143</u></u>	<u><u>\$5,384</u></u>

The City's total receipts for governmental activities decreased by approximately 47 percent or \$2,697,000. The total cost of all programs and services increased by approximately \$359,000 or 12.1 percent with no new programs added this year. The decrease in receipts was primarily due to no new general obligation bonds being issued.

The City increased the property tax rates from \$18.56005 in fiscal year 2012 to \$18.58226 in fiscal year 2013. The City increased the property tax rate to cover costs of some of the major projects and needs of the city. The City's taxable valuation for taxes levied increased by approximately 2.24% in fiscal year 2013 compared to fiscal year 2012. Based on the increases in the total assessed valuations, and increase in the levy, property tax receipts are budgeted to increase by approximately \$24,776 next year.

The cost of all governmental activities this year was approximately \$3.33 million compared to approximately \$2.97 million last year. However, as shown in the Statement of Activities and Net Position on pages 16 and 17, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$2.49 million because some of the cost was paid by those directly benefited from the programs (approximately \$175,000) or by other governments and organizations that subsidized certain programs with grants and contributions (approximately \$670,000). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, decreased in 2013 from approximately \$1,025,000 to approximately \$845,000, principally due to a decrease in capital grants.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 774	\$ 667
Solid waste	24	24
Other	132	83
Capital grants, contributions and restricted interest	76	441
General receipts:		
Unrestricted interest on investments	1	1
Other general receipts	38	23
Total receipts	<u>1,045</u>	<u>1,239</u>
Disbursements:		
Sewer	654	899
Solid waste	13	17
Other	97	171
Total disbursements	<u>764</u>	<u>1,087</u>
Change in cash basis net position, before transfers	281	152
Transfers, net	<u>(40)</u>	<u>108</u>
Change in cash basis net position	241	260
Cash basis net position beginning of year	<u>689</u>	<u>429</u>
Cash basis net position end of year	<u>\$ 930</u>	<u>\$ 689</u>

Total business type activities receipts for the fiscal year were approximately \$1.045 million compared to approximately \$1.239 million last year. This decrease was due primarily to completion of a public assistance grant for sanitary sewer. The cash balance increased by approximately \$241,000 from the prior year. Total disbursements for the fiscal year decreased by approximately 29.7 percent to a total of \$764 thousand partly because of the completion of the aforementioned public assistance grant.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Chariton completed the year, its governmental funds reported a combined fund balance of approximately \$5,138,000, a decrease of approximately \$261,000 below last year's total of approximately \$5,399,000. The following are the major reasons for the changes in cash balances from the prior year for the City's major funds.

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$769,614, a decrease of approximately \$23,000 from the prior year. Most of this decrease was due to the purchase of equipment for the street department from the 2012 general bond issuance.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$45,859 to \$38,005. This decrease was primarily attributable to an increase in the cost to maintain and service equipment. The City intends to use this money to upgrade the condition of all city roads.
- The Special Revenue, Local Option Sales Tax Fund decreased \$312,171 to \$1,318,611. This decrease was primarily attributable to the use of the funds for infrastructure repair, as allowed by a public referendum held in fiscal year 2012.
- The Special Revenue, Employee Benefits Tax Fund cash balance increased \$131,494 to \$223,055 at June 30, 2013. This increase was attributable to an expected increase in health insurance costs.
- The Debt Service Fund cash balance decreased by \$39,470 to \$1,987,758. This decrease was due to the use of reserve funds to cover the required debt service. \$1,984,370 in advance funds are being held in escrow to calls bonds in 2015.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The cash balance of the Enterprise, Sewer Fund increased by \$175,467 to \$492,569 due primarily to a need to develop adequate reserves for upcoming capital projects.

The cash balance of the Enterprise, Solid Waste Fund increased by \$11,685 to \$428,304 due primarily to the need to continue to develop reserves to an adequate level to address upcoming capital expenditures.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget twice. The second amendment was approved on May 20, 2013 to provide for additional expenditures in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$1,077,700 less than budgeted. This was primarily due to a delay in the receipt of a federal Community Development Block grant to assist the construction of an upper level housing project.

Even with the budget amendments, total disbursements were \$1,426,183 less than the amended budget. The actual disbursements for the culture and recreation, community and economic development and public works were \$88,138, \$708,732 and \$75,799, respectively, less than the amended budget. This was primarily due to expense reductions in both culture and recreation and public works. Community and economic development was lower than the budgeted amount because of a delay in commencement of the aforementioned Community Development Block grant.

DEBT ADMINISTRATION

At year-end, the City had \$5,568,196 in bonds and other long-term debt compared to \$6,227,803 last year as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2013	2012
General obligation bonds	\$4,780	\$4,965
Revenue bonds	-	410
Sewer revenue (SRF)	718	749
Capital lease	70	104
Total	<u>\$5,568</u>	<u>\$6,228</u>

Debt decreased as a result of payments made on the various debts.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2.87 million is well below the City's \$7.5 million legal debt limit.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Chariton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities. These indicators were taken into account when adopting the budget for fiscal year 2014.

The City's 100% valuation has increased from \$139 million in 2006 to \$151 million in 2013. The taxable value increased from \$81 million in 2006 to \$93 million in 2013. The 100% valuation and the taxable valuation for 2014 will increase slightly in comparison to 2013.

The city valuations are tied to agriculture through the residential rollback. A property owner pays taxes on approximately 52.82% of the 100% assessed value of the property.

The City is budgeting during a financially uncertain period within the State. State funding cuts have presented future funding issues within the City's General Fund. During fiscal year 2014, all departments funded from the General Fund are required to review their department budgets and to either cut disbursements, or offset costs through higher receipts through fines, fees, or costs for services.

The City's expected property tax receipts for fiscal year 2014 is \$1,756,009, as compared to fiscal year 2013 actual tax receipts of \$1,683,785, an increase of \$72,224.

The City's budgeted total revenues for fiscal year 2014 are \$5,549,919 as opposed to fiscal year 2013 actual revenues of \$4,081,629, an increase of \$1,468,290.

The City's expected disbursements for fiscal year 2014 is \$5,576,950, as opposed to fiscal 2013 year actual disbursements of \$4,115,958.

The City is reviewing the budget to reduce deficits.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ruth A. Ryun, City Clerk, 115 South Main Street, Chariton, Iowa 50049.

Basic Financial Statements

CITY OF CHARITON

Statement of Activities and Net Position - Cash Basis

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service and Sales	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 670,728	\$ 1,563	\$ 84,110	\$ -
Public works	698,419	39,475	443,590	2,828
Health and social services	4,700	-	-	-
Culture and recreation	489,471	98,882	113,850	-
Community and economic development	37,815	27,041	5,164	20,052
General government	332,707	8,414	-	-
Debt service	803,840	-	-	-
Capital projects	294,272	-	-	-
Total governmental activities	<u>3,331,952</u>	<u>175,375</u>	<u>646,714</u>	<u>22,880</u>
Business type activities:				
Sewer	653,660	774,448	-	60,153
Solid waste	13,190	23,798	-	-
Airport	79,924	68,574	-	16,241
Storm water	17,733	63,082	-	-
Total business type activities	<u>764,507</u>	<u>929,902</u>	<u>-</u>	<u>76,394</u>
Total	<u><u>\$4,096,459</u></u>	<u><u>\$1,105,277</u></u>	<u><u>\$646,714</u></u>	<u><u>\$99,274</u></u>
General receipts and transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Hotel motel tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Miscellaneous				
Sale of capital assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position, beginning of year				
Cash basis net position, end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted				

Total cash basis net position

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
\$ (585,055)	\$ -	\$ (585,055)
(212,526)	-	(212,526)
(4,700)	-	(4,700)
(276,739)	-	(276,739)
14,442	-	14,442
(324,293)	-	(324,293)
(803,840)	-	(803,840)
(294,272)	-	(294,272)
(2,486,983)	-	(2,486,983)
-	180,941	180,941
-	10,608	10,608
-	4,891	4,891
-	45,349	45,349
-	241,789	241,789
(2,486,983)	241,789	(2,245,194)
1,440,441	-	1,440,441
327,689	-	327,689
347,130	-	347,130
37,078	-	37,078
19,094	-	19,094
5,511	1,078	6,589
14,600	37,744	52,344
14,076	-	14,076
40,209	(40,209)	-
2,245,828	(1,387)	2,244,441
(241,155)	240,402	(753)
5,384,428	689,340	6,073,768
\$5,143,273	\$929,742	\$6,073,015
\$ 212,397	\$ -	\$ 212,397
38,005	-	38,005
1,987,758	-	1,987,758
2,130,282	-	2,130,282
774,831	929,742	1,704,573
\$5,143,273	\$929,742	\$6,073,015

CITY OF CHARITON

Statement of Cash Receipts, Disbursements and Changes in Cash Balances Governmental Funds

As of and for the year ended June 30, 2013

		Special Revenue	
	General	Local Option Sales Tax	Road Use Tax
Receipts:			
Property tax	\$ 880,654	\$ -	\$ -
Other City tax	92,863	347,130	-
Licenses and permits	34,303	-	-
Use of money and property	5,141	2,351	-
Intergovernmental	132,609	-	413,804
Charges for service	140,202	-	-
Miscellaneous	123,973	-	-
Total receipts	1,409,745	349,481	413,804
Disbursements:			
Operating:			
Public safety	515,905	-	-
Public works	131,644	-	459,663
Health and social services	4,700	-	-
Culture and recreation	418,376	-	-
Community and economic development	31,785	-	-
General government	288,465	-	-
Debt service	-	431,170	-
Capital projects	128,931	165,342	-
Total disbursements	1,519,806	596,512	459,663
Excess (deficiency) of receipts over (under) disbursements	(110,061)	(247,031)	(45,859)
Other financing sources (uses):			
Sale of capital assets	14,076	-	-
Operating transfers in	100,223	-	-
Operating transfers out	(27,318)	(65,140)	-
Total other financing sources (uses)	86,981	(65,140)	-
Change in cash balances	(23,080)	(312,171)	(45,859)
Cash balances, beginning of year	792,694	1,630,782	83,864
Cash balances, end of year	\$ 769,614	\$1,318,611	\$ 38,005
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -
Restricted for:			
Debt service	-	-	-
Streets	-	-	38,005
Other purposes	-	1,318,611	-
Unassigned	769,614	-	-
Total cash basis fund balances	\$ 769,614	\$1,318,611	\$ 38,005

See notes to financial statements.

Employee Benefit Tax	Debt Service	Nonmajor	Total
\$ 486,709	\$ 316,422	\$ -	\$1,683,785
17,292	11,267	-	468,552
-	-	-	34,303
-	5,511	634	13,637
-	-	23,222	569,635
-	-	-	140,202
69	-	2,354	126,396
504,070	333,200	26,210	3,036,510
132,159	-	23,617	671,681
109,365	-	-	700,672
-	-	-	4,700
70,859	-	560	489,795
-	-	6,029	37,814
60,193	-	-	348,658
-	372,670	-	803,840
-	-	-	294,273
372,576	372,670	30,206	3,351,433
131,494	(39,470)	(3,996)	(314,923)
-	-	-	-
-	-	-	14,076
-	-	188,034	288,257
-	-	(155,590)	(248,048)
-	-	32,444	54,285
131,494	(39,470)	28,448	(260,638)
91,561	2,027,228	772,565	5,398,694
\$ 223,055	\$1,987,758	\$ 801,013	\$5,138,056
\$ -	\$ -	\$ 212,397	\$ 212,397
-	1,987,758	-	1,987,758
-	-	-	38,005
223,055	-	588,616	2,130,282
-	-	-	769,614
\$ 223,055	\$1,987,758	\$ 801,013	\$5,138,056

CITY OF CHARITON

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Position -
Governmental Funds

As of and for the year ended June 30, 2013

Total governmental funds cash balances (pages 18 - 19) \$ 5,138,056

***Amounts reported for governmental activities in the Statement of Activities
and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the Central Fuel Facility to individual funds. A portion of the cash balance of the Internal Service Fund are included in governmental activities in the Statement of Activities and Net Position.

5,217

Cash basis net position of governmental activities (pages 16 -17) \$ 5,143,273

Net change in cash balances (pages 18 - 19) \$ (260,638)

***Amounts reported for governmental activities in the Statement of Activities
and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of the Central Fuel Facility to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the cash basis Statement of Activities and Net Position.

19,483

Change in cash basis net position of governmental activities (pages 16 - 17) \$ (241,155)

See notes to financial statements.

CITY OF CHARITON

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2013

	Enterprise Funds				Internal Service Fund Central Fuel
	Sewer	Solid Waste	Nonmajor	Total	
Operating receipts:					
Use of money and property	\$ -	\$ -	\$ 29,740	\$ 29,740	\$ -
Charges for service	774,448	23,798	101,916	900,162	318,123
Total operating receipts	774,448	23,798	131,656	929,902	318,123
Operating disbursements:					
Governmental activities					
Public safety	-	-	-	-	14,647
Public works	-	-	-	-	34,638
Culture and recreation	-	-	-	-	4,983
General government	-	-	-	-	245,150
Business type activities	487,969	13,190	93,210	594,369	269
Total operating disbursements	487,969	13,190	93,210	594,369	299,687
Excess of operating receipts over operating disbursements	286,479	10,608	38,446	335,533	18,436
Non-operating receipts (disbursements):					
Interest on investments	-	1,077	-	1,077	-
Intergovernmental	60,153	-	16,241	76,394	-
Miscellaneous	34,735	-	3,011	37,746	1,064
Debt service	(55,343)	-	-	(55,343)	-
Capital projects	(110,348)	-	(4,465)	(114,813)	-
Net non-operating receipts (disbursements)	(70,803)	1,077	14,787	(54,939)	1,064
Excess of receipts over disbursements	215,676	11,685	53,233	280,594	19,500
Other financing sources (uses)					
Operating transfers out	40,209	-	-	(40,209)	-
Total other financing (uses)	(40,209)	-	-	(40,209)	-
Change in cash balances	175,467	11,685	53,233	240,385	19,500
Cash balances beginning of year	317,102	416,619	(43,892)	689,829	(14,755)
Cash balances end of year	\$ 492,569	\$ 428,304	\$ 9,341	\$ 930,214	\$ 4,745
Cash Basis Fund Balances					
Unrestricted	\$ 492,569	\$ 428,304	\$ 9,341	\$ 930,214	\$ 4,745
Total cash basis fund balances	\$ 492,569	\$ 428,304	\$ 9,341	\$ 930,214	\$ 4,745

See notes to financial statements.

CITY OF CHARITON

Reconciliation of the Statement of Cash Receipts, Disbursements and
Changes in Cash Balances to the Statement of Activities and Net Position
Proprietary Funds

As of and for the year ended June 30, 2013

Total enterprise funds cash balances (page 21) \$ 930,214

*Amounts reported for business type activities in the statement of activities
and net position are different because:*

The Internal Service Fund is used by management to charge the costs of the Central Fuel Facility to individual funds. A portion of assets of the cash balance of the Internal Service Fund is included in the business type activities in the cash basis Statement of Activities and Net Position.

(472)

Cash basis net position of business type activities (page 16-17) \$ 929,742

Change in cash balances (page 21) \$ 240,385

*Amounts reported for business type activities in the statement of activities
and net position are different because:*

The Internal Service Fund is used by management to charge the costs of the Central Fuel Facility to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the cash basis Statement of Activities and Net Position.

17

Change in cash basis net position of business type activities (page 16-17) \$ 240,402

See notes to financial statements.

CITY OF CHARITON

Notes to Financial Statements

June 30, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Chariton is a political subdivision of the State of Iowa located in Lucas County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides solid waste, sewer and storm water utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Chariton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

The financial statements present only the City of Chariton, Iowa (the primary government). The financial statements do not include a component unit of the City. The entity discussed below is a component unit of the City because of the significance of its operational or financial relationship with the City. Complete financial statements of the individual component unit, which issues separate audited financial statements, can be obtained from the respective administrative offices.

The Municipal Waterworks Utility is a separate legal entity. However, it is financially accountable to the City. The Utility is governed by a three-member board appointed by the Mayor and subject to approval by the City Council and its operating budget is subject to the approval of the City Council. The Municipal Waterworks issues separate audited cash basis financial statements with a fiscal year-end of June 30, which are available at their administrative office.

Jointly Governed Organization

The City participates in several jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the boards of Lucas County Assessor's Conference Board, South Central Iowa Solid Waste Commission and the Chariton Area Development Corporation.

Related Organization

The City Council members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation

Government-wide Financial Statements - The cash basis Statement of Activities and Net Position (previously referred to as Net Assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of the interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable Restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds, respectively.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax collections to be used for infrastructure improvements including street, sanitary sewer, storm sewer and park improvements.

The Employee Benefit Tax Fund is used to account for property tax and other receipts to be used for the costs associated with providing employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The City also reports the following additional funds:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis. This is composed of the Central Fuel Facility.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus and Basis of Accounting - Continued

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Enterprise funds apply all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements in accounting and reporting for its proprietary operations unless they are contradicted with pronouncements issued by the Governmental Accounting Standards Board which apply to the comprehensive basis of accounting used.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the debt service function.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Property Taxes

All City property taxes must be certified to the Lucas County Auditors on or before the fifteenth day of March of each year for the upcoming fiscal year which runs from July 1 to June 30. Property taxes are levied in June and attached as an enforceable lien on the property on July 1.

Property taxes levied for the year ending June 30, 2013, attached as an enforceable lien on July 1, 2012, with the first half installment being delinquent after September 30, 2012 and the second half installment being delinquent after March 31, 2013.

(2) CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2013, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2013, the City had the following investments:

Type	Carrying Amount	Fair Value
Corporate preferred stock	<u>\$1,400</u>	<u>\$1,400</u>

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Corporate stock is not an allowable investment according to the Code of Iowa.

(3) BONDS AND NOTES PAYABLE

The following is a summary of the changes in the outstanding long-term debt of the City for the year ended June 30, 2013.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(3) BONDS AND NOTES PAYABLE - CONTINUED

	Balance June 30, 2012	Issued	Redeemed	Balance June 30, 2013
Governmental Activities				
General obligation bonds and notes	\$ 4,964,936	\$ -	\$ 185,000	\$ 4,779,936
Capital lease	103,867	-	33,607	70,260
Local option sales and service revenue bond	410,000	-	410,000	-
	<u>\$ 5,478,803</u>	<u>\$ -</u>	<u>\$ 628,607</u>	<u>\$ 4,850,196</u>
Business Type Activities				
Sewer revenue bonds	<u>\$ 749,000</u>	<u>\$ -</u>	<u>\$ 31,000</u>	<u>\$ 718,000</u>

Annual debt service requirements to maturity for general obligation bonds and notes, local option sales and services tax revenue refunding bonds, and sewer revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 279,936	\$ 143,182	\$ 32,000	\$ 21,540	\$ 311,936	\$ 164,722
2015	2,205,000	134,770	33,000	20,580	2,238,000	155,350
2016	325,000	43,450	34,000	19,590	359,000	63,040
2017	330,000	39,400	36,000	18,570	366,000	57,970
2018	340,000	32,800	37,000	17,490	377,000	50,290
2019-2023	1,300,000	79,000	202,000	70,170	1,502,000	149,170
2024-2028	-	-	238,000	37,770	238,000	37,770
2029-2030	-	-	106,000	4,800	106,000	4,800
	<u>\$4,779,936</u>	<u>\$ 472,602</u>	<u>\$ 718,000</u>	<u>\$ 210,510</u>	<u>\$5,497,936</u>	<u>\$ 683,112</u>

The City paid \$192,903 in interest on debt obligations for the year ended June 30, 2013. Total principal paid on debt for the year ended June 30, 2013 was \$659,607. Interest rates on debts range from 1.00% to 4.93%. Bonds to be called per crossover refunding, detailed below, are reported as maturing in the year they will be recalled in the above maturity schedule.

Local Option Sales and Services Tax Revenue Refunding Bonds - The City has pledged future local option sales tax receipts, net of specified operating disbursements, to repay \$890,000 in local option sales and services tax revenue bonds issued in November 2009. Proceeds from the bonds provided financing for refunding a 1999 bond issue. This 1999 bond issue provided financing for costs of constructing and equipping a municipal swimming pool. The bonds are payable solely from local option sales taxes and are payable through 2015. Annual principal and interest payments on the bonds are expected to require less than 53 percent of local option sales tax receipts. For the current year, principal and interest paid and total local option sales tax receipts were \$429,670 and \$347,130, respectively. The bonds are payable solely from the proceeds of the local option sales tax revenues received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the City. The debt, however, is subject to the constitutional debt limitation of the City. See debt defeasance below.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(3) BONDS AND NOTES PAYABLE - CONTINUED

Debt Defeasance

The City has defeased the local option sales and service bond issue in the governmental funds by depositing funds into a separate irrevocable trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of June 30, 2013, the amount of defeased debt outstanding but removed from the General Long-Term Debt amounted to \$250,000. The City's economic gain from the defeasance of the debt is approximately \$2,800.

Sewer Revenue Bonds (Series 2009-A) - On January 13, 2010, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (trustee) for the issuance of \$808,000 of wastewater revenue bonds with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater system. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the wastewater revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2010 by the bank from the first proceeds of the wastewater revenue bonds drawn down by the City.

The City has pledged future customer wastewater customer receipts, net of specified operating disbursements, to repay \$808,000 in sewer revenue bonds issued in 2010. The bonds are payable solely from wastewater customer net receipts and are payable through 2030. Annual principal and interest payment on the bonds are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$928,510. For the current year, principal and interest paid and total customer net receipts were \$53,470 and \$286,479, respectively.

The resolutions providing for the issuance of the wastewater revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the City and the bond holders hold a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(3) BONDS AND NOTES PAYABLE - CONTINUED

- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a wastewater revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted account noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Capital Lease

The City is leasing a street sweeper under a capital lease. The balance of the lease is \$70,259 as of June 30, 2013. Annual payments are \$36,713 each year, including interest at 2.99 percent. The lease is collateralized by the street sweeper.

As of June 30, 2013, the present value of future minimum capital lease payments are as follows:

June 30, 2014	\$ 36,713
June 30, 2015	<u>36,713</u>
Total minimum lease payments	73,426
Less amount representing interest	<u>3,167</u>
Presenting value of net minimum capital lease payments	<u><u>\$ 70,259</u></u>

Crossover Refundings

On June 28, 2012, the City issued \$2.07 million in general obligation refunding bonds with interest rates ranging between 1.00% and 2.00%. The City issued the bonds for a crossover refunding of \$1,920,000 of the essential corporate purpose 2008 bonds with interest rates ranging between 3.40% and 4.50%. The City used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for future debt service on the refunded portion of these bonds at their callable dates. The 2008 bond issue will be recalled on June 1, 2015. The refunding will reduce total debt service payments over the next 11 years by approximately \$114,800. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$103,100. Balance in the escrow account at June 30, 2013 was \$1,984,370.

(4) OPERATING LEASE AGREEMENTS

The City is leasing a copy machine for \$195 per month plus usage charges. The City also rents office space from Lucas County for a law enforcement center at \$750 per month. The Law Enforcement Center agreement ends on June 30, 2014. Future required payments consist of the following:

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(4) OPERATING LEASE AGREEMENTS - CONTINUED

2014	\$	11,340
2015		2,340
2016		1,560

Total rent expense during the fiscal year on these agreements was \$11,340.

(5) IPERS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Employees in the protection occupations contribute 6.84% of their annual covered salary and the City is required to contribute 10.27 % of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$74,920, \$83,049, and \$75,126, respectively, equal to the required contributions for each year.

(6) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 18 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Health Care. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$494 for single coverage, \$1,001 for employee/spouse coverage, \$945 for employee/children coverage, and \$1,464 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013 the City contributed \$191,746 and plan members eligible for benefits contributed \$41,547 to the plan.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(6) OTHER POSTEMPLOYMENT BENEFITS (OPEB)- CONTINUED

The City has entered into an agreement with the City Manager which formally identifies the financial obligation of the City to them in the event of an involuntary employment termination. The severance agreement provides for a termination payment equal to six months of wages plus two months of all benefits. The compensation rate is based upon the compensation paid to the applicable employee at the time of termination.

(7) COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation, overtime, holiday and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, overtime, holiday and sick leave termination payments payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation, overtime and holiday	\$ 84,656
Sick leave	<u>161,777</u>
Total	<u>\$246,433</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

(8) DEFERRED COMPENSATION PLAN

The City offers certain employees a deferred compensation plan created in accordance with the provisions of Internal Revenue Code Section 457. The plan, available to the police department and the City Manager, allows those employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency. The City provides neither administrative service to the plan nor investment advice for the plan.

Plan contributions for the year by the City ended June 30, 2013 were \$15,075, and for the year ended June 30, 2012 were \$17,214.

(9) INTERFUND TRANSFERS AND LOANS

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(9) INTERFUND TRANSFERS - CONTINUED

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 65,140
	Library Endowment	9,041
	Enterprise:	
	Sewer	<u>26,042</u>
		100,223
Special Revenue:	General	
CDBG Housing		17,644
Donations		9,674
Special Revenue:		
Library Endowment	Enterprise:	
	Sewer	14,167
Special Revenue:	Special Revenue:	
Multi-Family Housing	Section 8 Housing	88,659
	CDBG Housing	<u>57,890</u>
		<u>146,549</u>
Total		<u>\$ 288,257</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

On June 4, 2012, the City approved a loan from the Library Endowment Fund to the Sewer Fund for \$73,000. The purpose of the loan is to make improvements to the City's sanitary sewer. The loan is to be repaid in semi annual payments of \$7,604.50 including interest at one and one half percent (1.5%) per annum. Balance of the loan at June 30, 2013 is \$58,833. Total principal and interest paid during the year ended June 30, 2013 was \$15,209.

(10) RISK MANAGEMENT

The City of Chariton is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) DEFICIT FUND BALANCES

At June 30, 2013, the City had deficit balances as follows:

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(11) DEFICIT FUND BALANCES - CONTINUED

<u>Fund</u>	<u>Amount</u>
Enterprise, Airport Fund	\$ 45,592

The Enterprise, Airport Fund deficit occurred because the City is unable to generate sufficient income from the airport operation to operate the airport. The City has no immediate plans to eliminate this deficit.

(12) CONTINGENCY

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grants and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(13) COMMITMENTS

The City has construction commitments to be financed from grant funds. The total outstanding construction commitments of the City as of June 30, 2013 is approximately \$6,200.

An agreement was entered into by the City and Lucas County for the services to be provided by the Communications Center and dispatch staff of the Law Enforcement Center. During the year ended June 30, 2013 the City paid the county \$60,430 for its portion of services.

(14) RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$24,244 during the year ended June 30, 2013.

(15) SUBSEQUENT EVENTS

The City has entered into a construction contract of approximately \$341,500 for a capital project.

The City has evaluated subsequent events through September 11, 2013, which is the date that the financial statements were available to be issued.

CITY OF CHARITON

Notes to Financial Statements - Continued

June 30, 2013

(16) FUND BALANCE

The City has assigned fund balances in the general fund of \$841,092, which exceeds the \$769,614 available to be assigned. As of June 30, 2013 this consists of funds assigned for the library, cemetery, park recycling and other purposes. The City is unable to determine how much of the \$769,614 available assigned fund balance should be allocated to the various programs. The Governmental Accounting Standards Board indicates that a city should not report assigned fund balances if the assignment would result in a deficit in the unassigned fund balance in the general fund, therefore, all general funds are considered as unassigned.

City of Chariton

Other Information

CITY OF CHARITON

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total
Receipts:				
Property tax	\$ 1,683,785	\$ -	\$ -	\$ 1,683,785
Other city tax	468,552	-	-	468,552
Licenses and permits	34,303	-	-	34,303
Uses of money and property	13,637	30,817	-	44,454
Intergovernmental	569,635	76,394	-	646,029
Charges for service	140,202	1,218,285	318,123	1,040,364
Miscellaneous	126,396	38,810	1,064	164,142
Total receipts	3,036,510	1,364,306	319,187	4,081,629
Disbursements:				
Public safety	671,681	14,647	14,647	671,681
Public works	700,672	34,638	34,638	700,672
Health and social services	4,700	-	-	4,700
Culture and recreation	489,795	4,983	4,983	489,795
Community and economic development	37,814	-	-	37,814
General government	348,658	245,150	245,150	348,658
Debt service	803,840	-	-	803,840
Capital projects	294,273	-	-	294,273
Business type activities	-	764,794	269	764,525
Total disbursements	3,351,433	1,064,212	299,687	4,115,958
Excess (deficiency) of receipts over (under) disbursements	(314,923)	300,094	(19,500)	(34,329)
Other financing sources (uses), net	54,285	(40,209)	-	14,076
Excess (deficiency) of receipts over (under) disbursements and other financing uses	(260,638)	259,885	19,500	(20,253)
Balances beginning of year	5,398,694	675,074	(14,755)	6,088,523
Balances end of year	<u>\$ 5,138,056</u>	<u>\$ 934,959</u>	<u>\$ 4,745</u>	<u>\$ 6,068,270</u>

See accompanying independent auditor's report.

Budgeted Amounts				Final to Total variance- Positive (Negative)
Original	Final	Adjustment (1) See page 40	Adjusted Final	
\$ 1,671,391	\$ 1,671,391	\$ -	\$ 1,671,391	\$ 12,394
446,342	446,342	-	446,342	22,210
10,705	24,705	-	24,705	9,598
67,168	67,168	-	67,168	(22,714)
1,070,624	1,521,495	-	1,521,495	(875,466)
3,337,818	3,843,932	2,502,500	1,341,432	(301,068)
86,750	86,750	-	86,750	77,392
6,690,798	7,661,783	2,502,500	5,159,283	(1,077,654)
593,201	695,337	-	695,337	23,656
661,474	776,471	-	776,471	75,799
4,700	4,700	-	4,700	-
529,448	577,933	-	577,933	88,138
40,000	746,546	-	746,546	708,732
358,710	368,702	-	368,702	20,044
498,625	797,230	-	797,230	(6,610)
-	319,935	-	319,935	25,662
3,888,371	3,757,787	2,502,500	1,255,287	490,762
6,574,529	8,044,641	2,502,500	5,542,141	1,426,183
116,269	(382,858)	-	(382,858)	348,529
-	(1)	-	(1)	14,077
116,269	(382,859)	-	(382,859)	362,606
4,015,333	4,056,390	-	4,056,390	2,032,133
<u>\$ 4,131,602</u>	<u>\$ 3,673,531</u>	<u>\$ -</u>	<u>\$ 3,673,531</u>	<u>\$ 2,394,739</u>

CITY OF CHARITON

Notes To Other Information - Budgetary Reporting

June 30, 2013

The budgetary comparison schedule is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the general fund and each major special revenue fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except internal service funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital project funds, the permanent fund and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$1,470,112. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the Debt Service function.

- (1) Budgeted items for component unit of the Municipal Waterworks Utility are removed because related actual receipts and disbursements are not included, see Note 1.

Supplementary Information

CITY OF CHARITON

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2013

				Special
	Revolving Loan Fund	Multi-Family Housing	Section 8 Housing	CDBG Housing
Receipts:				
Use of money and property	\$ 342	\$ -	\$ 284	\$ -
Intergovernmental	-	2,520	-	20,052
Miscellaneous	-	-	-	-
Total receipts	342	2,520	284	20,052
Disbursements:				
Operating:				
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	4,483	-	1,546
Total disbursements	-	4,483	-	1,546
Excess (deficiency) of receipts over (under) disbursements	342	(1,963)	284	18,506
Other financing sources (uses):				
Operating transfers in	-	146,549	-	17,644
Operating transfers (out)	-	-	(88,659)	(57,890)
Total other financing sources (uses)	-	146,549	(88,659)	(40,246)
Change in cash balances	342	144,586	(88,375)	(21,740)
Cash balances beginning of year	128,811	-	88,375	21,740
Cash balances end of year	\$ 129,153	\$ 144,586	\$ -	\$ -
Cash Basis Fund Balances				
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -
Restricted for:				
Other purposes	129,153	144,586	-	-
Total cash basis fund balances	\$ 129,153	\$ 144,586	\$ -	\$ -

See accompanying independent auditor's report.

Revenue					Permanent Cemetery Perpetual Care	Total
Donations	Library Endowment	Historic Preservation	Special Assessment	Fire Department		
\$ -	\$ -	\$ 8	\$ -	\$ -	\$ -	\$ 634
-	-	650	-	-	-	23,222
-	-	-	-	-	2,354	2,354
-	-	658	-	-	2,354	26,210
-	-	-	-	23,617	-	23,617
-	-	560	-	-	-	560
-	-	-	-	-	-	6,029
-	-	560	-	23,617	-	30,206
-	-	98	-	(23,617)	2,354	(3,996)
9,674	14,167	-	-	-	-	188,034
-	(9,041)	-	-	-	-	(155,590)
9,674	5,126	-	-	-	-	32,444
9,674	5,126	98	-	(23,617)	2,354	28,448
(9,674)	40,213	5,139	3,732	284,186	210,043	772,565
\$ -	\$ 45,339	\$ 5,237	\$ 3,732	\$ 260,569	\$ 212,397	\$ 801,013
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 212,397	\$ 212,397
-	45,339	5,237	3,732	260,569	-	588,616
\$ -	\$ 45,339	\$ 5,237	\$ 3,732	\$ 260,569	\$ 212,397	\$ 801,013

City of Chariton

CITY OF CHARITON

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances (Deficit)
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2013

	Enterprise Funds		
	Storm Water	Airport	Total
Operating receipts:			
Use of money and property	\$ -	\$ 29,740	\$ 29,740
Charges for service	63,082	38,834	101,916
Total operating receipts	63,082	68,574	131,656
Operating disbursements:			
Business type activities	17,733	75,477	93,210
Total operating disbursements	17,733	75,477	93,210
Excess (deficiency) of operating receipts over (under) operating disbursements	45,349	(6,903)	38,446
Non-operating receipts (disbursements):			
Intergovernmental	-	16,241	16,241
Miscellaneous	1,166	1,845	3,011
Capital projects	-	(4,465)	(4,465)
Total non-operating receipts (disbursements)	1,166	13,621	14,787
Excess (deficiency) of receipts over (under) disbursements	46,515	6,718	53,233
Other financing sources:			
Operating transfers	-	-	-
Change in cash balances	46,515	6,718	53,233
Cash balances (deficits) beginning of year	8,418	(52,310)	(43,892)
Cash balances (deficits) end of year	\$ 54,933	\$ (45,592)	\$ 9,341
Cash Basis Fund Balances (Deficits)			
Unrestricted	54,933	(45,592)	9,341
Total cash basis fund balances (deficits)	\$ 54,933	\$ (45,592)	\$ 9,341

See accompanying independent auditor's report.

CITY OF CHARITON

Schedule of Indebtedness

Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds/Notes:			
Economic Development Note	Jun 1, 2004	4.93%	\$2,000,000
Corporate Purpose and Refunding	Sep 15, 2008	3.75-3.90%	1,700,000
Corporate Purpose and Refunding	Jun 28, 2012	1.00-2.00%	2,070,000
Corporate Purpose	Jun 15, 2012	1.25-2.00%	400,000
Revenue Bonds:			
Local Option Sales and Services	Nov 1, 2009	2.60-3.30%	\$ 890,000
Sewer Revenue:			
Sewer Revenue Bonds	Jan 13, 2010	3.00%	\$ 808,000
Capital Lease:			
Key Government Finance	Jun 1, 2011	2.99%	\$ 173,212

(1) \$1,984,370 being held in escrow to recall bonds on June 1, 2015

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 9,936	\$ -	\$ 5,000	\$ 4,936	\$ 367	\$ -
2,485,000	-	180,000	2,305,000 (1)	103,825	-
2,070,000	-	-	2,070,000	36,893	-
400,000	-	-	400,000	6,572	-
<u>\$ 4,964,936</u>	<u>\$ -</u>	<u>\$ 185,000</u>	<u>\$ 4,779,936</u>	<u>\$ 147,657</u>	<u>\$ -</u>
<u>\$ 410,000</u>	<u>\$ -</u>	<u>\$ 410,000</u>	<u>\$ -</u>	<u>\$ 19,670</u>	<u>\$ -</u>
<u>\$ 749,000</u>	<u>\$ -</u>	<u>\$ 31,000</u>	<u>\$ 718,000</u>	<u>\$ 22,470</u>	<u>\$ -</u>
<u>\$ 103,867</u>	<u>\$ -</u>	<u>\$ 33,607</u>	<u>\$ 70,260</u>	<u>\$ 3,106</u>	<u>\$ -</u>

CITY OF CHARITON

Schedule of Bond and Note Maturities

June 30, 2013

Year Ending June 30,	General Obligation Bonds and Notes					
	Economic Development Note		Corporate Purpose and Refunding (1)		Corporate Purpose and Refunding	
	Issued June 1, 2004		Issued September 15, 2008		Issued June 28, 2012	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2014	4.93%	\$ 4,936	3.75%	\$ 190,000	1.00%	\$ 10,000
2015	-	-	3.90	2,115,000	1.00	10,000
2016	-	-	-	-	1.00	245,000
2017	-	-	-	-	2.00	250,000
2018	-	-	-	-	2.00	255,000
2019	-	-	-	-	2.00	250,000
2020	-	-	-	-	2.00	255,000
2021	-	-	-	-	2.00	260,000
2022	-	-	-	-	2.00	265,000
2023	-	-	-	-	2.00	270,000
Total		<u>\$ 4,936</u>		<u>\$ 2,305,000</u>		<u>\$ 2,070,000</u>

Year Ending June 30,	Sewer Revenue Bonds	
	Sewer Revenue Bonds	
	Issued January 13, 2010	
	Interest	
	Rates	Amount
2014	3.00%	\$ 32,000
2015	3.00	33,000
2016	3.00	34,000
2017	3.00	36,000
2018	3.00	37,000
2019	3.00	38,000
2020	3.00	39,000
2021	3.00	40,000
2022	3.00	42,000
2023	3.00	43,000
2024	3.00	45,000
2025	3.00	46,000
2026	3.00	47,000
2027	3.00	49,000
2028	3.00	51,000
2029	3.00	52,000
2030	3.00	54,000
Total		<u>\$ 718,000</u>

See accompanying independent auditor's report.

Corporate Purpose				
Issued June 15, 2012				
Interest				
Rates	Amount		Total	
1.25%	\$	75,000	\$	279,936
1.25		80,000		2,205,000
2.00		80,000		325,000
2.00		80,000		330,000
2.00		85,000		340,000
-		-		250,000
-		-		255,000
-		-		260,000
-		-		265,000
-		-		270,000
	\$	<u>400,000</u>	\$	<u>4,779,936</u>

CITY OF CHARITON

Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds

For the Years Ended June 30,

	2013	2012	2011	2010
Receipts:				
Property tax	\$ 2,152,337	\$ 1,626,475	\$ 1,536,340	\$ 1,527,995
Tax increment financing collections	-	-	-	-
Other city tax	-	492,316	426,972	392,880
Licenses and permits	34,303	12,844	11,893	11,543
Use of money and property	13,637	17,671	42,337	56,569
Intergovernmental	569,635	794,761	707,313	720,783
Charges for service	140,202	145,342	131,338	117,015
Special assessments	-	-	-	3,732
Miscellaneous	126,396	131,500	312,480	181,044
Total	\$ 3,036,510	\$ 3,220,909	\$ 3,168,673	\$ 3,011,561
Disbursements:				
Operating:				
Public safety	\$ 671,681	\$ 587,218	\$ 702,382	\$ 738,608
Public works	700,672	590,805	730,280	750,617
Health and social services	4,700	4,700	7,767	7,400
Culture and recreation	489,795	630,902	559,230	693,033
Community and economic development	37,814	190,437	40,244	69,010
General government	348,658	350,950	342,522	383,818
Debt service	803,840	594,882	429,206	714,969
Capital projects	294,273	1,725	3,149	1,203,196
Non-program	-	-	-	-
Total	\$ 3,351,433	\$ 2,951,619	\$ 2,814,780	\$ 4,560,651

See accompanying independent auditor's report.

2009	2008	2007	2006	2005	2004
\$ 1,449,823	\$ 1,357,277	\$ 1,324,958	\$ 1,245,388	\$ 1,248,279	\$ 1,281,166
-	90,766	88,363	84,970	70,141	53,680
348,465	526,678	520,969	505,068	427,265	470,216
8,351	10,869	9,668	14,346	11,410	8,648
81,874	116,875	313,763	231,890	64,000	150,407
1,419,371	723,369	509,582	450,401	455,901	668,993
123,850	101,806	74,262	116,669	128,300	176,839
2,221	22,658	11,033	15,771	15,688	26,119
295,759	172,556	638,795	347,416	1,671,264	127,176
<u>\$ 3,729,714</u>	<u>\$ 3,122,854</u>	<u>\$ 3,491,393</u>	<u>\$ 3,011,919</u>	<u>\$ 4,092,248</u>	<u>\$ 2,963,244</u>
\$ 1,027,649	\$ 756,584	\$ 670,353	\$ 608,609	\$ 590,405	\$ 613,188
859,241	975,900	762,208	779,619	832,039	591,061
11,060	7,270	7,683	6,030	9,036	7,457
539,897	433,780	537,248	467,570	584,598	451,533
10,466	8,200	7,203	17,125	43,249	208,933
362,634	339,543	358,532	302,087	350,925	330,853
775,922	581,670	576,161	581,082	510,916	498,754
2,192,964	737,284	1,092,852	278,495	-	21
-	-	55,231	293,984	91,158	50,820
<u>\$ 5,779,833</u>	<u>\$ 3,840,231</u>	<u>\$ 4,067,471</u>	<u>\$ 3,334,601</u>	<u>\$ 3,012,326</u>	<u>\$ 2,752,620</u>

City of Chariton



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Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Chariton, Iowa as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 11, 2013. Our report expressed unmodified opinions on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the primary government of the City of Chariton's internal control over financial reporting to determine the audit procedures appropriate for the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Chariton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the primary government of the City of Chariton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the primary government of the City of Chariton's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-A-13, to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-B-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the primary government of the City of Chariton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the primary government of the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Chariton's Responses to Findings

The primary government of the City of Chariton's responses to findings identified in our audit are described in the accompanying Schedule of Findings and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing on internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Chariton during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Martens & Company, CPA, LLP

West Des Moines, Iowa
September 11, 2013

CITY OF CHARITON

Schedule of Findings

Year ended June 30, 2013

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements of the primary government of the City, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting is disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF CHARITON

Schedule of Findings - Continued

Year ended June 30, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-13 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits, the posting of the cash receipts to the accounting records and the bank reconciliations are not properly segregated among office and administrative personnel.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We continue to monitor our procedures and reassign duties as practical.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and continue to utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-13 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in all small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response - This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirements.

Conclusion - Response accepted.

CITY OF CHARITON

Schedule of Findings - Continued

Year ended June 30, 2013

Part IV Other Findings Related to Required Statutory Reporting:

- III-A-13 Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - Costs deducted from bond proceeds need to be recorded as disbursements to properly reflect the total debt service cost. The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the applicable function budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- III-B-13 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-13 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- III-D-13 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Christie Metzger, Deputy Clerk	Custodial Service	\$ 4,800
Hamilton Roofing & Siding Christopher Hamilton, Streets Employee	Roof Repairs	\$19,444

In accordance with Chapter 362.5(10) of the Code of Iowa, these transactions do not appear to represent a conflict of interest since the transactions were approved by the city council and the work was awarded on a competitive bid process.

- III-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- III-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

- III-G-13 Deposits and Investments - The Debt Service Fund and the Enterprise, Sewer Fund does not receive bank interest, even though this is required by Chapter 12C.9 of the Code of Iowa.

CITY OF CHARITON

Schedule of Findings - Continued

Year ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting - Continued:

The City cemetery owns stock which was purchased in previous years. This is not a permissible investment in accordance with the Code of Iowa, nor with the City's investment policy.

Recommendation - The Debt Service Fund and the Enterprise, Sewer Fund should receive bank interest as required by the Code of Iowa. In addition, the City should continue its efforts to dispose of cemetery stock and reinvest in permissible investments as soon as possible.

Response - We are in the process of divesting this stock. In addition, we will also review the allocation of bank interest to the various funds.

Conclusion - Response accepted.

III-H-13 Revenue Bonds - No instances of non-compliance with revenue bonds were noted.

III-I-13 Financial Condition - As documented in Note 11 in the Notes to the Financial Statements, the Enterprise, Airport Fund, had a deficit balance at June 30, 2013.

Recommendation - The City should monitor the above funds in order to eliminate these deficits.

Response - We currently have no plans to eliminate the Enterprise, Airport Fund deficit, as the airport is unable to generate enough money to break-even.

Conclusion - Response accepted.

III-J-13 Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.